UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALAWI

Report No. 2028

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Report on the Audit of UNDP Malawi
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Malawi (the Office) from 12 to 23 November 2018. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 30 September 2018. The Office recorded programme and management expenses of approximately $80 million. The last audit of the Office was conducted by United Nations Board of Auditors in 2017.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed***,* which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to incorrect use of micro-capital grants, weaknesses in financial management, and unrecorded liabilities from contracts signed.

Key recommendations: Total = **9**, high priority = **3**

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	7	High
Effectiveness and efficiency of operations	4, 6	High
	2, 3, 5, 7, 8, 9	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Incorrect use of micro-capital grants (Issue 4)	There were three grants totalling $431,000 where funds were disbursed by the Office although expected deliverables had not been delivered. Further, the Office incorrectly recorded four payments totalling $178,000 as grants in Atlas. These payments were requested by the implementing partners for the implementation of project activities and should have been recorded against the respective projects and not as grants. Lastly, there were three grants totalling $363,000 for activities that did not fall under the purpose of a micro-capital grant. Recommendation: The Office should improve the management and use of micro-capital grants by: (a) discontinuing the practice of disbursing funds for project implementation payments using micro-capital grants; and (b) ensuring that staff initiating and approving grant agreements are trained on the intended purposes of grants.
Weaknesses in financial management (Issue 6)	The following weaknesses were noted: ▪ The audit team reviewed a sample of 19 vouchers totalling $473,000. Of these, 9 had been issued using duplicate documents to replace original payment vouchers whose electronic fund transfer payments had been returned by the bank. ▪ The audit team reviewed a sample of 45 payment vouchers totalling $5.6 million. Of these, the Office approved 29 payments in Atlas amounting to $17,000 but they were put on hold during the audit period. Of these, 20 vouchers were on hold for more than six months. The audit team also requested supporting documents for three payment vouchers, but these were not made available. ▪ The Office used a local bank to disburse cash advances to multiple third-party beneficiaries through either cash payments or electronic fund transfers. The Office did not receive reconciliation documents from the bank for electronic fund transfers. The total payments made to the bank (from January 2017 to June 2018), for which there was no accounting for the use of funds, was $1.6 million. Recommendation: The Office should improve the financial management process by ensuring that: (a) no payment vouchers are created and approved using duplicate documents or without supporting documents; and (b) funds advanced to the bank for payments to beneficiaries are fully accounted for and reconciled, and balances are refunded in a timely manner.
Unrecorded liabilities from contracts signed (Issue 7)	The audit team noted that five vendors had been contracted but the Office did not raise purchase orders when the contracts were signed. Instead, the Office paid $3 million from the 14 purchase orders that were issued when it was time for the vendors to be paid. Further, it was not possible to determine the remaining outstanding liabilities as the Office did not maintain a record of contracts issued, amounts paid from those contracts, and amounts outstanding. Recommendation: The Office should properly record all contract liabilities by: (a) undertaking an inventory of all existing contracts and updating Atlas to fully reflect all outstanding commitments; and (b) raising purchase orders in Atlas immediately after contracts are signed with vendors in the future.

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Management comments and action plan

The UNDP Representative accepted all nine recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Lilongwe, Malawi (the Country) had a total of 95 personnel (67 staff and 28 service contract holders). At the time of the audit, the Office had 30 ongoing projects (28 nationally implemented and 2 directly implemented). Developmental areas of focus of these projects were: sustainable and inclusive economic growth, climate change, energy and environment and disaster risk mitigation, Millennium Development Goals achievement (gender and HIV/AIDS), democratic governance, and public-sector management. This was in line with the 2012-2016 Country Programme, which was extended to December 2018.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Operations – Information and Communication Technology. At the time of the audit, the Office had an approved and tested Business Continuity Plan and a Disaster Recovery Plan.

(b) Operations – Asset Management. The Office was in in compliance with UNDP policies and procedures relating to the management of assets.

(c) Operations – General Administration. The Office had implemented adequate procedures in general administration relating to the management of vehicles, fuel management, common services budget, travel and staff protocols.

(d) Operations – Staff and Premises Security. The Office was compliant with safety and security guidelines.

(e) UN Leadership and Coordination. The Office's support to the Resident Coordinator Office was found to be adequate.

OAI made three recommendations ranked high (critical) and six recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:
(a) Properly record all contract liabilities (Recommendation 7).
(b) Improve the management and use of micro-capital grants (Recommendation 4).
(c) Improve the financial management process (Recommendation 6).

Medium priority recommendations, arranged according to significance:
(a) Enhance controls to ensure adequate segregation of duties (Recommendation 1).
(b) Enhance controls over the recruitment process (Recommendation 8).
(c) Ensure that all staff members complete all mandatory courses (Recommendation 2).
(d) Ensure micro-assessments properly reflect implementing partner capacities (Recommendation 3).
(e) Ensure the proper implementation of Direct Project Costing (Recommendation 5).
(f) Comply with the 'UNDP Programme and Operations Policies and Procedure' when granting salary advances to staff (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Inadequate segregation of duties

The Internal Control Framework requires that where the first authority (project manager) and second authority (manager level one, level two, or senior manager) must be held by a single staff, the staff member with both authorities must not exercise the dual authorities in the same transaction (e.g., approve a requisition and its purchase order). They must also not act as second authority for transactions charged to their own projects. Additionally, mitigating controls must be implemented when conflicting roles are assigned to a staff. Staff designated as project managers in Atlas (enterprise resource planning system of UNDP) must not approve transactions when they are also managers of the project.

There were 15 staff designated with both first authority (project manager) and second authority (manager level one, level two, or senior manager) in Atlas while this was not justified. One staff member had approved 416 vouchers, including journal vouchers, in projects where the staff member was listed as project manager in Atlas. Total outgoing payments (excluding journal vouchers) from this amounted to $464,009 (313 of 416 vouchers). Additionally, there were 26 instances where project managers exercised first authority for projects for which they were not designated as project managers.

The Office was not aware of these transactions because a mitigating control had not been implemented to detect conflicting roles.

Not properly segregating duties may result in ineligible transactions going undetected.

Priority	Medium (Important)
Recommendation 1: The Office should enhance controls to ensure adequate segregation of duties by: (a) revisiting the Atlas delegations of authority to ensure consistency with the 'UNDP Programme Operations Policies and Procedures'; and (b) implementing mitigating controls to detect conflicting roles.	
Management action plan: (a) The Office will introduce mitigation controls to detect any conflicting roles. (b) The Office will also ensure compliance with the Internal Control Framework through staff meetings and email communications. **Estimated completion date:** February 2019	

Issue 2 Low completion rate of UNDP mandatory training courses

UNDP's mandatory courses reinforce organizational values and norms. Mandatory courses provide compliance-learning in topics such as security, prevention of harassment, gender equality, legal framework, and ethical principles and standards of behaviour. It is expected that all staff members, including managers and supervisors, complete the UNDP mandatory courses and obtain their certificates of completion within six months of their joining the organization.

The Office had an average of a 24 percent non-completion rate of mandatory courses as of November 2018. The staff members with outstanding courses had been with the Office for more than six months.

Staff explained that the non-completion of mandatory courses was mainly due to time constraints. However, completion of these courses must also be given priority to ensure staff awareness of the organization's regulations and rules and to guide staff on their roles and responsibilities.

Not completing mandatory training courses may result in staff members not being aware of policies that are relevant to their roles and responsibilities.

Priority	Medium (Important)
Recommendation 2: The Office should ensure that all staff members complete all mandatory courses immediately.	
Management action plan: Management has communicated to staff at various times the importance of mandatory courses. Efforts are being made to achieve 100 percent compliance on both the Prevention of Sexual Exploitation and Abuse of the Local Population course, and the Prevention of Harassment, Sexual Harassment and Abuse of Authority course by 31 December 2018 and on all other mandatory courses by 31 March 2019. **Estimated completion date:** March 2019	

2. Corporate Oversight & Assurance

Issue 3 Micro-assessments not properly reflecting implementing partner capacities

According to the 'UNDP Programme and Operations Policies and Procedures', the purpose of a micro-assessment is to determine an implementing partner's financial management capacity with a view to establishing the most appropriate cash transfer modality for the partner. The adjusted risk rating that is determined by the micro-assessment also determines the number of spot checks and assurance activities that must be undertaken per year.

Out of 13 micro-assessments completed for the Office, OAI reviewed micro-assessment reports for 8 implementing partners that received cash advances totalling $919,000 during the audit period. The following weaknesses were noted:

(a) Three government ministries were given an overall low risk rating. However, these ministries were under the Government's financial management system, which was assessed with significant risk during the macro-assessment. This indicated that the micro-assessments did not take into consideration the results of the macro-assessment. In addition, a subsequent spot check of one of the ministries disclosed weaknesses in procurement, non-adherence to regulations regarding travel allowances, weak monitoring and management of fuel, and no follow up on credit notes. Therefore, this could suggest that the risk rating given was incorrect.

(b) Four implementing partners were rated as low risk during their micro-assessments. However, subsequent spot checks disclosed that they did not have the capacity and did not establish internal controls to warrant a low risk rating.

(c) The risk rating for one implementing partner had been incorrectly recorded as low in the Harmonized Approach to Cash Transfer (HACT) SharePoint site, whereas the micro-assessment report indicated a significant risk rating. This resulted in a lower number of spot checks and assurance activities completed during the year for the implementing partner.

The Office and the HACT focal point from another UN agency acknowledged the discrepancies in the micro-assessment reports and stated that this was going to be addressed by the HACT Working Group. Assessments were being undertaken by external companies, as per policy. At the time of the audit, it was not clear why these discrepancies occurred.

Advancing funds to implementing partners that have discrepancies in assessments may result in funds being given to implementing partners that do not have the financial capacity to manage, record and report on these funds.

Priority	Medium (Important)
Recommendation 3: The Office, in coordination with the HACT Working Group, should ensure micro-assessments properly reflect implementing partner capacities by: (a) reviewing all micro-assessment reports and working with consulting firms to address all discrepancies noted; and (b) ensuring all future micro-assessments are reviewed and discrepancies, if any, are corrected.	
Management action plan: All observations made in points a and b are being taken very seriously and the HACT Working Group will review each of them and discuss with the companies that conducted them. Other mitigation measures are going to be discussed to avoid similar situations in future. **Estimated completion date:** June 2019	

B. Programme

1. Programme/Project Design & Implementation

Issue 4 Incorrect use of micro-capital grants

Micro-capital grants for non-credit purposes are awarded for the following activities: (a) strengthening institutional capacity of non-governmental organizations and community-based organizations; (b) supporting community-based self-help projects, which may include income-generating activities that will alleviate poverty; (c) promoting advocacy activities and networking between civil society organizations, government and donors; and (d) supporting non-governmental organizations and community-based organizations involved in local environment protection and poverty eradication activities.

The audit team reviewed 12 grant payments totalling $1 million and noted the following issues:

- There were three grants totalling $431,000 where funds had been disbursed by the Office, however; expected deliverables had not been delivered.

- The Office incorrectly recorded four payments totalling $178,000 as grants in Atlas. These payments were requested by the implementing partners for the implementation of project activities and should have been recorded against the respective projects and not as grants.

- There were three grants totalling $363,000 for activities that did not fall under the purposes of a micro-capital grants, such as feasibility studies, policy research, infrastructure design and monitoring.

There was a lack of understanding in the Office on the use of the grant modality.

The incorrect use of micro-capital grants can negatively impact programme delivery and may prevent the Office from adequately tracking funds intended for implementing project activities.

Priority	High (Critical)

Recommendation 4:

The Office should improve the management and use of micro-capital grants by:

(a) discontinuing the practice of disbursing funds for project implementation payments using micro-capital grants; and
(b) ensuring that staff initiating and approving grant agreements are trained on the intended purposes of grants.

Management action plan:

(a) The Office will ensure the appropriate use of micro-capital grants. The Office is already using civil society organization engagement as responsible parties.
(b) During the processing of direct payments, the programme associates and implementing partners made some mistakes in applying the wrong accounts. The Office will conduct more training to avoid using incorrect accounts.

Estimated completion date: February 2019

C. Operations

1. Financial Resources Management

Issue 5 Direct Project Costing not properly implemented

The UNDP Direct Project Costing (DPC) policy requires that organizational costs incurred in the implementation of projects should be included in the project budget and charged directly to the project. The policy recommends a workload study as a tool to be used to determine staff costs that can be directly attributed to projects. Where DPC is charged, implementation support service costs should not also be levied against the same project. Moreover, general operating costs directly attributable to the implementation of development projects should also be charged to relevant projects.

The audit team noted the following weaknesses:

- The Office had implemented DPC by using multiple funding lines in Atlas. However, the Office did not conduct a workload review to support the costing.
- In 2018, the Office projected to charge $3.2 million in direct project costs against total staffing costs of $6 million. In view of declining core resources to finance the Office's structure, DPC was used as a mechanism to fund Office posts. However, it was not clear as to how the staff contributed to the achievement of the outputs of the project.
- While the Office was charging direct project costs for posts using multiple funding lines, it was also charging fees for implementation support services. For two projects reviewed, total additional implementation support service fees charged amounted to $16,000. Additionally, the Office was also using journal entries to implement DPC, which should not be done when using multiple funding lines.
- The Office was recovering general operating expenses for the posts that were covered by DPC, as required. Therefore, the Office was subsidizing development projects and was not reflecting the true cost of implementing development projects.

In the absence of resources, the Office chose to use DPC as a means to fund posts as opposed to a mechanism to attribute direct project costs.

These gaps meant that the true costs of implementing development projects were not captured and core resources were used to subsidize donor funds.

Priority	Medium (Important)
Recommendation 5: The Office should ensure the proper implementation of Direct Project Costing by: (a) periodically undertaking workload reviews to guide implementation of Direct Project Costing when using the multiple funding lines; (b) not charging implementation support service fees when charging direct project costs for posts using multiple funding lines; and (c) recovering general operating costs and negotiating with donors to apportion Direct Project Costing to project resources.	
Management action plan: (a) The Office will undertake a trial of a workload study as per point a in February to better address apportioning of development costs to cost sharing resources. (b) The Office will stop charging implementation support services to projects that are charging DPC. (c) The Office will negotiate with donors to apportion DPC. **Estimated completion date:** June 2019	

Issue 6 Weaknesses in financial management

According to the 'UNDP 'Programme and Operations Policies and Procedures', an accounts payable voucher is raised upon the receipt of goods and services and the presentation of a vendor(s) invoice or certification of services rendered in line with defined milestones. It records a liability due to a vendor and expenses against a given chart of account. When a payment is cancelled in Atlas in case of rejection or return from the bank, procedures dictate that the payment should be voided and reissued against the same voucher upon correction of vendor banking details. A new payment voucher must not be issued using copies of supporting documents.

Payment vouchers issued using duplicate supporting documents

The audit team reviewed a sample of 19 vouchers totalling $473,000. Of these, 9 had been issued using duplicate documents to replace original payment vouchers whose electronic fund transfer payments had been returned by the bank. The Office explained that voiding and unreconciling the payment ran the risk of creating an external entry to be resolved. If this would not be resolved immediately, the Office indicated that it may reflect negatively in UNDP's financial dashboard.

Payments approved with no supporting documents

The audit team reviewed a sample of 45 payment vouchers totalling $5.6 million. Of these the Office approved 29 payments in Atlas amounting to $17,000 but they were put on hold during the audit period. Of these, 20 vouchers totalling $12,775 were on hold for more than six months. The audit team requested supporting documents for three payment vouchers, but these were not made available. The Office explained that these were payments to be cancelled at the end of the year. Nevertheless, these payment vouchers should not have been approved without supporting documents.

Inadequate oversight over advances to the local bank

The Office used a local bank to disburse cash advances to multiple third-party beneficiaries either through cash payments or electronic fund transfers. The Office received reconciliation documents from the bank for cash payments but not for electronic fund transfers. The total payments made to the bank (from January 2017 to June 2018), for which there was no accounting for the use of funds, was $1.6 million. The Office assumed that the bank would always successfully electronically transmit the funds to beneficiaries. If not, the Office would be informed and refunded by the bank for unsuccessful electronic transmissions. However, there was no assurance, through independent verification by the Office, on the validity of electronic fund transfers as reported by the bank.

Approving vouchers without adequate supporting documents and before contractual obligations are met may result in financial losses for the organization.

Priority	High (Critical)
Recommendation 6: The Office should improve the financial management process by ensuring that: (a) no payment vouchers are created and approved using duplicate documents or without supporting documents; and (b) funds advanced to the bank for payments to beneficiaries are fully accounted for and reconciled, and balances are refunded in a timely manner.	
Management action plan: (a) The Office will process all returned payments as per advice from Treasury. The Office has also noted that there were long outstanding vouchers in accounts payable that were approved but not paid. Normally, the Office cleans out the accounts payable at year end. The Office is in the process of implementing a mechanism of reviewing accounts payable upon monthly financial closure. (b) The Office followed up with the bank on the possibility of providing reconciliation/validation reports on electronic transfers to beneficiaries; they indicated that such reports cannot be provided due to system limitations. The Office will seek advice from the Office of Financial Resources Management on how best to manage this situation especially now that a new banking agreement is being negotiated. **Estimated completion date:** March 2019	

2. Procurement

Issue 7 Unrecorded liabilities from contracts signed

UNDP procurement policy dictates that where a contract has been signed and issued to third parties by offices, a purchase order must be raised in Atlas and approved to reflect the full value of the commitment made. When funds are insufficient due to a shortfall in contributions received, the budget override functionality in Atlas must be used to record the liabilities, thus ensuring the integrity of the financial records contained in Atlas.

The audit team noted that five vendors had been contracted but the Office did not raise purchase orders when the contracts were signed. Instead, the Office paid $3 million from the 14 purchase orders that were issued when it was time for the vendors to be paid. Further, it was not possible to determine the remaining outstanding liabilities as the Office did not maintain a record of contracts issued, the amount paid from those contracts, or the amounts still outstanding.

The Office explained that it had not received funds from donors and did not want to use the budget override policy to record the liability as it would affect the financial dashboard.

By not raising purchase orders for the full amount at the time of contract signing, the total funds needed to meet the obligation may not be reserved, creating a risk that the Office might not have enough funds to settle the liability when it becomes due.

Priority	High (Critical)
Recommendation 7: The Office should properly record all contract liabilities by: (a) undertaking an inventory of all existing contracts and updating Atlas to fully reflect all outstanding commitments; and (b) raising purchase orders in Atlas immediately after contracts are signed with vendors in the future.	
Management action plan: The Office acknowledges the importance of this observation and is going to contact the Office of Financial Resources Management on the way forward, knowing that the project against which the transactions occurred is a new modality and is based on special arrangements. **Estimated completion date:** February 2019	

3. Human Resources Management

Issue 8 <u>Lapses in recruitment and selection process</u>

The 'UNDP Recruitment and Selection Framework' states that the selection of candidates will follow a visible and fair competitive process, screening will be conducted with professional rigor, and candidates will be measured against clearly articulated criteria and competencies. The selection process should be driven by the human resources function with recruiting managers coming in at key points in the process.

Based on a review of nine recruitment cases, the following weaknesses were noted:

- For one recruitment, the P11 forms of two selected candidates for a P4 post contained overlapping periods of employment. Therefore, it was difficult to determine the actual number of years of experience of these candidates. On another recruitment, it was conducted by the project manager and the Human Resources Unit was only involved during contracting.

- For the recruitment of staff at the P6 level, the vacancy announcement required candidates to demonstrate 15 years of international development experience. The audit team's review of records disclosed that the successful candidate had only 12 years of such experience. The Office explained that the remaining years were counted from some of the other experiences that were not directly attributable to the requirement of the post as stated in the vacancy announcement. However, there was no documentation that this consideration was extended to all other candidates to ensure a fair and competitive process.

- The Office did not routinely document the reasons for excluding or including a candidate in the long and shortlists. Further, the Office did not keep the scoring file that was used for the exams and interviews for the nine recruitments reviewed. As such, it was not possible for the audit team to determine whether the screening, grading, and interview rating had been objective.

These issues were caused by inadequate oversight and lack of capacity of the Human Resources Unit.

Failure to properly manage the recruitment process may result in unfair hiring practices.

Priority Medium (Important)
Recommendation 8: The Office should enhance controls over the recruitment process by: (a) ensuring that information presented in the signed P11 forms is reviewed and verified; (b) ensuring that all recruitments are in conformance with the requirements in the vacancy announcements and undertaken by the Human Resources Unit; and (c) maintaining full documentation of all recruitments.
Management action plan: The Office will undertake the following actions to mitigate the risk identified by audit team: (a) After shortlisting of CVs, the additional step undertaken by the Human Resources Unit will be indicating the number of years of relevant experience in the table for each shortlisted candidate. Additionally, any overlaps will be noted and clarified with the candidates. This table and P11s will be screened by the Deputy Resident Representative (Operations). (b) For shortlisted candidates, the Office will require a comment in order to define why the candidate is shortlisted. (c) Written tests scoring/interview grading individual sheets will be maintained on the record. **Estimated completion date:** July 2019

Issue 9 Unjustified use of salary advances

The 'UNDP Programme and Operations Policies and Procedures' state that salary advances are to be made only for exceptional and unexpected expenses and when no credit facilities from financial institutions are available. Medical advances are to be recovered within four months of being issued.

The total salary advances made during the audit period amounted to $384,684 using 207 payment vouchers. The following issues were noted:

- Staff salary advances were granted on a recurring basis. The audit team also noted that advances were issued prior to the clearance of existing outstanding advances. In another instance, all three types of advances (special, medical, and emergency advances) were made on the same day to the same staff.
- There was no evidence on file to support that credit could not be obtained from other lending sources.
- There were 32 salary advances amounting to $87,114 recorded as medical advances. However, they were not recovered from the staff within four months, as required.

The Office explained that the use of salary advances was mainly due to high bank lending rates. However, this was not a valid justification for the Office to grant salary advances to staff.

The practice of routinely issuing salary advances may result in financial losses for the organization if the advances are not recovered.

Priority	Medium (Important)
Recommendation 9: The Office should comply with the ‘UNDP Programme and Operations Policies and Procedure’ when granting salary advances to staff.	
Management action plan: For emergency and special condition advances, the Office will request to prove difficulty in obtaining credit from local sources as per rules and regulations. Medical advances will be recovered within four months. **Estimated completion date:** February 2019	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.